

Mr. Thomas S. Tiller, CFO
Laurel Baye Healthcare, LLC
Post Office Box 2700
Pawley's Island, South Carolina 29585

Re: AC# 3-MDB-A9 – Meadow Brook Health Care Center

Dear Mr. Tiller:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period August 1, 1998 through January 31, 1999. That report was used to set the rate covering the contract periods beginning August 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

Mr. Thomas S. Tiller, CFO
Laurel Baye Healthcare, LLC
Post Office Box 2700
Pawley's Island, South Carolina 29585

Re: Draft Report - AC# 3-MDB-A9 – Meadow Brook Health Care Center

Dear Mr. Tiller:

The accompanying draft report has been prepared by our office. Please review the adjustments as presented.

If you have any questions concerning this report and would like a formal exit conference with the auditors, please write to Mr. John P. Corbacho, CPA, regarding the establishment of a meeting date. Your correspondence should include the above referenced control number. Your request for a conference must be made within ten (10) calendar days of your receipt of this report, and the conference must be held within twenty (20) calendar days of your receipt of this report. Any additional documentation in support of allowable cost must be received by our office no later than twenty (20) calendar days after your receipt of this report.

If we do not hear from you within ten (10) calendar days of your receipt of this report, we will assume you do not want an exit conference. In this case, I will reissue this report to you in final form and you will have thirty (30) calendar days in which to file a formal appeal if you so desire.

Yours very truly,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

Ms. Brenda L. Hyleman, Director
Division of Home Health and Nursing Home Services
Department of Health and Human Services
Post Office Box 8206
Columbia, South Carolina 29202-8206

Re: Draft Report - AC# 3-MDB-A9 – Meadow Brook Health Care Center

Dear Ms. Hyleman:

Please review the adjustments contained in the accompanying draft report. If you have any comments or disagreements with the adjustments and resulting computations, please contact Mr. John P. Corbacho, CPA within ten (10) calendar days.

Use of the above referenced control number is requested on any subsequent correspondence pertaining to this report.

If you do not have any comments, it will be assumed you are in agreement with the report and only those concerns of the Provider, if any, will be considered prior to the issuance of the final report.

Yours very truly,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Mr. Jeff Saxon
Mr. Robert M. Kerr

MEADOW BROOK HEALTH CARE CENTER

BLACKVILLE, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING AUGUST 1, 1998
AC# 3-MDB-A9**

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 18, 2000

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Meadow Brook Health Care Center, for the contract periods beginning August 1, 1998, and for the six month cost report period ended January 31, 1999, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Meadow Brook Health Care Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summaries of Costs and Total Patient Days, and Cost of Capital Reimbursement Analyses sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Meadow Brook Health Care Center, dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
July 18, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

MEADOW BROOK HEALTH CARE CENTER

Computation of Rate Change
For the Contract Periods
Beginning August 1, 1998
AC# 3-MDB-A9

	08/01/98 <u>09/30/98</u>	10/01/98 <u>11/30/98</u>	12/01/98 <u>01/31/99</u>	02/01/99 <u>09/30/99</u>	Beginning <u>10/01/99</u>
Interim reimbursement rate (1)	\$96.90	\$100.36	\$101.11	\$104.52	\$106.90
Adjusted reimbursement rate (2)	<u>68.88</u>	<u>71.05</u>	<u>71.82</u>	<u>97.21</u>	<u>99.47</u>
Decrease in reimbursement rate	<u>\$28.02</u>	<u>\$ 29.31</u>	<u>\$ 29.29</u>	<u>\$ 7.31</u>	<u>\$ 7.43</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

(2) This cost report should have been treated as a change in ownership through a lease of fixed assets. The South Carolina State Plan, Attachment 4.19D Section IIIIE.2. requires, "In the event of a lease of fixed assets between unrelated parties, the new operator (i.e., lessee) will receive the prior operator's rate (i.e., lessor) for the first six full calendar months of operation."

MEADOW BROOK HEALTH CARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Periods February 1, 1999 Through September 30, 1999
AC# 3-MDB-A9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$46.11	\$46.64	
Dietary		9.61	9.93	
Laundry/Housekeeping/Maint.		<u>11.90</u>	<u>8.11</u>	
Subtotal	\$ <u>-</u>	67.62	64.68	\$64.68
Administration & Med. Rec.	\$ <u>1.44</u>	<u>9.46</u>	<u>10.90</u>	<u>9.46</u>
Subtotal		77.08	<u>\$75.58</u>	74.14
<u>Costs Not Subject to Standards:</u>				
Utilities		1.77		1.77
Special Services		-		-
Medical Supplies & Oxygen		9.42		9.42
Taxes and Insurance		.79		.79
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$89.06</u>		86.12
Inflation Factor (3.60%)				3.10
Cost of Capital				5.55
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.44
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				-
CNA Add-On				.75
Minimum Wage Add-On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$97.21</u>

MEADOW BROOK HEALTH CARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-MDB-A9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$46.11	\$47.61	
Dietary		9.61	10.24	
Laundry/Housekeeping/Maint.		<u>11.90</u>	<u>8.89</u>	
Subtotal	\$ <u>-</u>	67.62	66.74	\$66.74
Administration & Med. Rec.	\$ <u>1.93</u>	<u>9.46</u>	<u>11.39</u>	<u>9.46</u>
Subtotal		77.08	<u>\$78.13</u>	76.20
<u>Costs Not Subject to Standards:</u>				
Utilities		1.77		1.77
Special Services		-		-
Medical Supplies & Oxygen		9.42		9.42
Taxes and Insurance		.79		.79
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$89.06</u>		88.18
Inflation Factor (3.00%)				2.65
Cost of Capital				5.43
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.93
Cost Incentive				-
Effect of \$1.75 Cap on Cost/Profit Incentives				(.18)
CNA Add-On				.75
Nurse Aide Staffing Add-On				<u>.71</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$99.47</u>

MEADOW BROOK HEALTH CARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended January 31, 1999
For the Contract Periods February 1, 1999 Through September 30, 1999
AC# 3-MDB-A9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$711,525	\$ 590 (1) 25 (1) 43 (4)	\$ 2,019 (5) 9,408 (7) 507 (7) 760 (10)	\$699,489
Dietary	145,832	190 (1)	264 (7)	145,758
Laundry	38,471	-	-	38,471
Housekeeping	54,268	-	-	54,268
Maintenance	88,047	398 (1)	622 (7)	87,823
Administration & Medical Records	165,225	2,167 (3)	2,024 (1) 2,921 (4) 2,669 (6) 3,506 (7) 89 (7) 12,121 (8) 575 (10)	143,487
Utilities	30,120	-	3,263 (4)	26,857
Special Services	5,226	7,399 (5)	5,226 (9) 7,399 (14)	-
Medical Supplies & Oxygen	225,783	2,798 (1)	3,913 (4) 10,166 (5) 71,568 (13)	142,934
Taxes & Insurance	27,898	-	15,850 (4)	12,048
Legal Fees	-	-	-	-

MEADOW BROOK HEALTH CARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended January 31, 1999
For the Contract Periods February 1, 1999 Through September 30, 1999
AC# 3-MDB-A9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	83,100	122 (2) 799 (8) <u>206 (11)</u>	-	84,227
Subtotal	1,575,495	14,737	154,870	1,435,362
Ancillary	17,029	-	2,289 (1)	14,740
Non-Allowable	89,101	25,904 (4) 4,786 (5) 2,669 (6) 14,396 (7) 11,322 (8) 5,226 (9) 1,335 (10) 71,568 (13) <u>7,399 (14)</u>	2,167 (3) 206 (11)	231,333
Total Operating Expenses	<u>\$1,681,625</u>	<u>\$159,342</u>	<u>\$159,532</u>	<u>\$1,681,435</u>
TOTAL PATIENT DAYS	<u>15,171</u>	<u>-</u>	<u>-</u>	<u>15,171</u>
TOTAL BEDS	<u>85</u>			

MEADOW BROOK HEALTH CARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended January 31, 1999
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-MDB-A9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$711,525	\$ 590 (1) 25 (1) 43 (4)	\$ 2,019 (5) 9,408 (7) 507 (7) 760 (10)	\$699,489
Dietary	145,832	190 (1)	264 (7)	145,758
Laundry	38,471	-	-	38,471
Housekeeping	54,268	-	-	54,268
Maintenance	88,047	398 (1)	622 (7)	87,823
Administration & Medical Records	165,225	2,167 (3)	2,024 (1) 2,921 (4) 2,669 (6) 3,506 (7) 89 (7) 12,121 (8) 575 (10)	143,487
Utilities	30,120		3,263 (4)	26,857
Special Services	5,226	7,399 (5)	5,226 (9) 7,399 (14)	-
Medical Supplies & Oxygen	225,783	2,798 (1)	3,913 (4) 10,166 (5) 71,568 (13)	142,934
Taxes and Insurance	27,898		15,850 (4)	12,048

MEADOW BROOK HEALTH CARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended January 31, 1999
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-MDB-A9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Legal Fees	-	-	-	-
Cost of Capital	81,321	122 (2) 799 (8) <u>193 (12)</u>	-	82,435
Subtotal	1,573,716	14,724	154,870	1,433,570
Ancillary	17,029		2,289 (1)	14,740
Non-Allowable	90,880	25,904 (4) 4,786 (5) 2,669 (6) 14,396 (7) 11,322 (8) 5,226 (9) 1,335 (10) 71,568 (13) <u>7,399 (14)</u>	2,167 (3) 193 (12)	233,125
Total Operating Expenses	<u>\$1,681,625</u>	<u>\$159,329</u>	<u>\$159,519</u>	<u>\$1,681,435</u>
Total Patient Days	<u>15,171</u>	<u>-</u>	<u>-</u>	<u>15,171</u>
Total Beds	<u>85</u>			

MEADOW BROOK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended January 31, 1999
AC# 3-MDB-A9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nursing	\$ 590	
	Restorative	25	
	Dietary	190	
	Maintenance	398	
	Medical Supplies & Oxygen	2,798	
	Other Equity	312	
	Administration		\$ 2,024
	Ancillary		2,289
	To adjust the trial balance to the amounts per the general ledger HIM-15-1, Section 2304		
2	Cost of Capital	122	
	Fixed Assets	6,405	
	Accumulated Depreciation	1,573	
	Other Equity		8,100
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Prepaid Loan Costs	8,233	
	Administration	2,167	
	Nonallowable		2,167
	Other Equity		8,233
	To record loan cost amortization HIM-15-1, Sections 2304, 202.4		
4	Nonallowable	25,904	
	Nursing	43	
	Administration		2,921
	Utilities		3,263
	Taxes, Licenses, & Insurance		15,850
	Medical Supplies & Oxygen		3,913
	To disallow expenses due to a lack of documentation and properly classify expenses HIM-15-1, Section 2304 DH&HS Expense Checklist		

MEADOW BROOK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended January 31, 1999
AC# 3-MDB-A9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Therapy	7,399	
	Nonallowable	4,786	
	Nursing		2,019
	Medical Supplies & Oxygen		10,166
	To disallow expenses not adequately documented and properly classify therapy expense HIM-15-1, Section 2304 DH&HS Expense Checklist		
6	Nonallowable	2,669	
	Administration		2,669
	To revise the allocation of administrative salaries from Silver Springs Healthcare Center to reflect the documented amount HIM-15-1, Section 2304		
7	Nonallowable	14,396	
	Nursing		9,408
	Restorative		507
	Dietary		264
	Maintenance		622
	Administration		3,506
	Medical Records		89
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Cost of Capital	799	
	Nonallowable	11,322	
	Administration		12,121
	To adjust home office costs to allowable HIM-15-1, Sections 2304, 2150.3		
9	Nonallowable	5,226	
	Special Services		5,226
	To adjust co-insurance for Medicare Part-B services State Plan, Attachment 4.19D		

MEADOW BROOK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended January 31, 1999
AC# 3-MDB-A9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Nonallowable Nursing Administration To disallow consulting expense due to insufficient documentation HIM-15-1, Section 2304	1,335	760 575
11	Cost of Capital Nonallowable To adjust capital return State Plan, Attachment 4.19D (For Rate Periods 2/1/99-9/30/99)	206	206
12	Cost of Capital Nonallowable To adjust capital return State Plan, Attachment 4.19D (For Rate Period Beginning 10/1/99)	193	193
13	Nonallowable Medical Supplies and Oxygen To adjust specialty beds State Plan, Attachment 4.19D	71,568	71,568
14	Nonallowable Therapy To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D	7,399	7,399
TOTAL ADJUSTMENTS		<u>\$176,058</u>	<u>\$176,058</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MEADOW BROOK HEALTH CARE CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended January 31, 1999
 For the Contract Periods February 1, 1999 Through September 30, 1999
 AC# 3-MDB-A9

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.1814</u>
Deemed Asset Value (Per Bed)	34,069
Number of Beds	<u>85</u>
Deemed Asset Value	2,895,865
Improvements Since 1981	153,471
Accumulated Depreciation at 1/31/99	<u>(740,308)</u>
Deemed Depreciated Value	2,309,028
Market Rate of Return	<u>.067</u>
Total Annual Return	154,705
Number of Days in Period	<u>184/365</u>
Adjusted Annual Return	77,988
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	77,988
Depreciation Expense	6,017
Amortization Expense	273
Capital Related Income Offsets	(51)
Allocation of Capital Expense to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	84,227
Total Patient Days (Minimum 97% Occupancy)	<u>15,171</u>
Cost of Capital Per Diem	\$ <u>5.55</u>

MEADOW BROOK HEALTH CARE CENTER

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended January 31, 1999

For the Contract Periods February 1, 1999 Through September 30, 1999

AC# 3-MDB-A9

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$3.21
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$7.20</u>
Reimbursable Cost of Capital Per Diem	\$5.55
Cost of Capital Per Diem	<u>\$5.55</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

MEADOW BROOK HEALTH CARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended January 31, 1999
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-MDB-A9

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.2493</u>
Deemed Asset Value (Per Bed)	35,130
Number of Beds	<u>85</u>
Deemed Asset Value	2,986,050
Improvements Since 1981	153,471
Accumulated Depreciation at 1/31/99	<u>(740,308)</u>
Deemed Depreciated Value	2,399,213
Market Rate of Return	<u>0.063</u>
Total Annual Return	151,150
Number of Days in Period	<u>184/365</u>
Adjusted Annual Return	76,196
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	76,196
Depreciation Expense	6,017
Amortization Expense	273
Capital Related Income Offsets	(51)
Allocation of Capital Expense to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	82,435
Total Patient Days (Minimum 97% Occupancy)	<u>15,171</u>
Cost of Captital Per Diem	\$ <u><u>5.43</u></u>

MEADOW BROOK HEALTH CARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended January 31, 1999
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-MDB-A9

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$3.21
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$7.20</u>
Reimbursable Cost of Capital Per Diem	\$5.43
Cost of Capital Per Diem	<u>\$5.43</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>